

Impact of Exchange Rate and Inflation on the Performance of Foreign Portfolio Inflows to Colombo Stock Exchange Sri Lanka: Pre and During Covid – 19 Periods

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ABSTRACT

Purpose: The objective of this research is to investigate whether the exchange rate, Inflation rate fluctuations, and covid-19 impact on foreign portfolio inflows (FPI) to Colombo Stock Exchange (CSE) Sri Lanka.

Design/Methodology/Approach: This Study is based on secondary and time series data. This study uses 8 years monthly data from 2015 January to 2022 November. The data were collected from the Central Bank report and CSE Data library of Sri Lanka. The study used foreign purchases to measure the study's dependent variable, foreign portfolio investments. Exchange rate, inflation and covid-19 are the independent variables. The VAR, Granger causality test, Variance decomposition and impulse response are used as methods to examine the relationship between Inflation rate, Exchange rate and covid-19 on FPI.

Findings: The results show that there is positive significant relationship between Inflation Rate and FPI while in Exchange rate and covid-19 have a negative impact on FPI.

Originality: Studies that examine the association between salient macroeconomic effects and foreign portfolio inflows considering the pandemic period are rare in the context of Sri Lanka. Therefore, this study is a first attempt that examine above matter in the context of Sri Lanka.

Keywords: *Foreign Portfolio Investment, Inflation Rate, Exchange Rate, Covid-19*